Growth of Agro Based Industries in India-An Overview

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Introduction

Agricultural development is main key to economic development in many developing countries, especially in South Asia where a large proportion of the population relies on agriculture directly or indirectly for their livelihoods. Poverty reduction and social progress in the region is inevitably linked to this as well. But the context the agricultural development has to be achieved has changed in the last decade or so in this region due to the opening up of domestic markets, liberalization of domestic policies under structural adjustment programme and the inclusion of agricultural trade under the WTO. Now, due to the declining terms of trade for primary products, which have a low level of knowledge intensity, the focus has shifted to value added agro products for export and domestic markets. The share of value added processed products in relation to commodity trade increased from 24.7 per cent in 1970 to 68.2 per cent by the end of the 2009, globally across developing and developed countries. But, a large part of this value added agro trade is intraindustry, spread across countries and even within the same corporate entities like Multi National Corporations or Trans National Corporations.

In fact, the food industry transnationality index, which raised from 59 per cent in 1990 to 89 per cent in 2009, is the highest among all industries. This index measures the degree to which a company which is internationalized by comparing foreign assets, sales and employment to that of at home. There are many advantages in being part of export-oriented value chains like knowledge transfer, better incomes and market understanding; there are also negative aspects like vulnerability of export markets, high cost of attending to these markets and price fluctuations. The developments in food technology, transport, Information and Communication Technology and biotechnology. In the developed world, made all these possible processed foods accounts for 68 per cent of consumption on an average.

Agribusiness has strong linkages with the industrial, agricultural and service sectors and has mutual impacts on each of these. It is the single largest sector of economy in many developing countries which is growing fast. Agriculture currently accounts for only about 26 per cent of the GDP in India as also for many other countries like Sri Lanka and Bangladesh and has been on a decline. But if we take an agribusiness perspective of the economy, then even now, more than 50 per cent of India GDP comes from the agribusiness sector, which includes the following agricultural inputs sectors, the farm production sector, agro processing, including food, manufacturing sector and the food/fibre distribution and marketing sector. Though sectors like agro processing and retailing or distribution are considered as part of the industrial and service sectors, respectively, they are directly dependent on what happens on or around the farms. Therefore, they are legitimately part of the agribusiness sector as agribusiness includes any land based or allied food or fiber production and activities deriving from them as long as the raw material base is biological in nature. Most of the rural non-farm sector, which is targeted for employment generation today is nothing but agribusiness and depends directly on what happens in the farm sector. As structural transformation of the economy takes place, the relative importance of primary farm production declines and that of processing and distribution increases. This shift is largely from agriculture to agribusiness as seen in most of the developed countries and more recently in developing Asian countries. Countries like Taiwan have shown that the agribusiness sector can serve to boost other sectors of the economy. However, the complexity of the agribusiness sector needs to be kept in mind while analyzing its impact on the development process of a country. Every step or link in an agribusiness chain from farm gate or even input supply to the retail represents an increasingly interlinked economic, technological and multiregional production system. This makes the distinction between agriculture and agro-industry increasingly blurred and the two sectors become interwoven.

Globalisation and liberalization are likely to have the greatest impact on the rural poor through their influence on the agricultural sector, terms of trade, availability and cost of inputs, and new investments in the agribusiness sector. Technological progress in farming can help the rural poor by raising farm productivity, lowering food prices, increasing employment, and reducing farming risk. But the role and influence of multinational corporations in food production and trade will, as an institutional mechanism, determine the exact impact of globalisation on the rural poor, who are mostly from the labour class. Contract farming promotes participation of domestic firms and MNCs in farming, and is seen as the new investment aspect of globalisation. This paper examines the profile and impact of agribusiness corporations, supermarket chains and such agencies on primary producers in India from the perspective of rural poverty reduction. India is world third largest producer of agricultural commodities after China and USA. India produces 16 per cent of the world milk, 41 per cent of mangoes, 30 per cent of cauliflowers, 28 per cent of tea, 23 per cent of bananas, 24 per cent of cashew nuts, 36 per cent of green peas and 10 per cent of onions. This strong base in agriculture provides a large and varied raw material base for food processing. Further, India has the largest livestock population reflecting the huge potential for India in the dairy and meat segments. This base in agriculture can not only feed India's large and growing consumption base, but also become a key supplier of food to the world. Although, India current share of world agriculture and food exports is about 1.6 per cent, there is potential for a multifold increase. But, the land holdings in India are very small. Though agriculture accounts for only 26 per cent of the GDP, the commodity sector as a per cent of GDP accounts for 58 per cent. At present, commodities of the order of Rs. 1100 billion are being traded. The major agricultural commodities traded are cotton, sugar, wheat, soybean, and potato. At present, future trading is permitted in more than 100 commodities and there are 3 national and 21 regional exchanges recognised for commodity futures trading.

India possesses 11 per cent of the world arable land, which is approximately 161 million hectares, and is the second-largest grower of fruits and vegetables, after China. Yet in 2009, it accounted for merely 2 per cent of the world $125 billion in exports of fruits and vegetables. In India double its share of global food and agricultural exports to 3 per cent in the next decade from 1.5 per cent now, with the value of exports soaring to $30 billion by 2015 from $8 billion in 2008. Only 2 per cent of Indian fruits and vegetables are processed, compared with 80 per cent in the United States. The growth of agro processing industries are food processing industry, wheat industry, fruits and vegetable, dairy industry and paper industry are discussed following lines.

FOOD PROCESSING INDUSTRY

The agro processing sector has grown appreciably during the last two decades. There are 35,000 modern rice mills besides 91,000 rice hullers, 4500 shellers and 8300 hullers - cum-shellers which together can process two thirds of India paddy production. There are 20, 000 pulse mills processing more than 75 per cent of the pulses produced in the country. In Gujarat has 35 pulse processing mills which process close to 10 lakh qt. dal annually. The raw materials from within India as well countries like Burma, Malawi, Tanzania are processed and re-export them to North American, Europe and other Asian countries besides Australia. In the horticulture sector, there are 5198 units processing fruits and vegetables. The fruit and vegetable processing industry grew 2.5 times in its installed capacity between 1990 and 2009. This was also accompanied by higher capacity utilisation (48 per cent) which was only 38 per cent in 1990. The exports grew more than five times during this period. However, this processing accounted for only 1.2 per cent of the total production of fruits and vegetables in the organized sector in India with the overall figure being 1.7 per cent. It is higher at 39 per cent in milk, 21 per cent in meat, and about 6 per cent and 11 per cent in poultry and marine fisheries respectively in 2009.

There are also more than 400 fish processing units in India. In fact, in the Indian food market, the processed food segment constitutes only 10 per cent while the semi-processed another 15 per cent. The food processing sector is dominated by unorganized sector units which account for 42 per cent of all the units with the small scale sector taking another 33 per cent and the organized sector only 25 per cent of all the food industry units. The organized sector comprises of 18000 units producing Rs.9000 crore worth of foods. The major sectors in food processing are meat and meat products, vegetable oils, and cereal products. Besides, there are 3619 ginning and pressing units with 47,194 gins and 810 presses. The value addition in the agro processing industry is estimated to be Rs. 2,500- 3,000 billion with one third of it being in value added food products alone. The contribution of this sector to the given to the Indian economy are presented in Table-1.

TABLE- 1. MAGNITUDE OF INDIAN FOOD PROCESSING INDUSTRY

Size of the industry	Rs. 2,50,000 crore
No of Units	6607
Investment	Rs. 20097 crore
FDI as o 31-2-04	Rs. 3500 crore
Contribution in GDP	5 Per Cent
Direct employment	2.77 lakh
Exports 2004	Rs. 14,500 crore
Growth	15 Per Cent annual
Contribution in total exports	10 Per Cent

Source: www.idfresearch.org

The Employment growth in the agro processing industries during the early 2009 as against the 1990 was higher in the case of only fruit and vegetable processing, meat, fish, edible oils and cashew, while net value added growth rates were higher than those in the later half of 1990. During the post 1994-95 period, employment growth rates have been higher in the case of fruit and vegetables, tea, starch, wines, textiles, and paper. The industry, especially the small scale and rural based, suffers from low productivity, and lack of capital and market orientation. The major problems of the agro processing industry are non availability of quality raw materials in adequate quantity at reasonable cost and at the right time, besides financial and demand constraints. There have been many mergers and acquisitions, and restructuring in the Indian food industry during the 1990s which have led to large consolidated players dominating many segments of the market.

The cooperatives have been successful in the processing of sugar, paddy, milk and cotton. Now, there are 273 sugar cooperatives which produce nearly 55 per cent of the total sugar production in India with the remaining being produced by private (153) and public sector mills. Similarly, more than 87,000 dairy cooperatives federated into 187 district level cooperatives and 27 state level federations working with 87 lakh milk producers have been important players in the milk business. There are 173 cooperative spinning mills accounting for 22 per cent of yarn and fabric production and 431 ginning and pressing cooperatives accounting for 12 per cent of all units and 21 per cent and 18 per cent, respectively of all gins and presses. Besides, there are 13,000 fisheries cooperatives in India. The main reason for the success of this segment of the processing sector has been the focus on value addition, and therefore, high returns to producing members, functional vertical integration, high participation of members, and professional management and leadership. During 2003-04, however there was a closure of 144 sugar mills of which most of them were in Maharashtra (49), U.P. (19) and Bihar (18). This figure increased to 176 in 2004-05, with 89 in Maharashtra, 19 in Bihar, and 17 in UP. During 2005–06 also, 132 sugar mills were closed with 48 in Maharashtra, 19 in Bihar, and 16 in U.P.

WHEAT BASED INDUSTRY

Within the wheat-based processing industry, bakery constitutes the largest segment of grain based processed foods are presented in Table-2.

TABLE-2. MARKET SIZE OF VARIOUS SEGMENTS OF WHEAT BASED FOODS

Segment	Value (Rs.Billion)	Volume (Million Tonnes)
Bread	38.9	3.75
Biscuits	68.6	1.95
Grain Based snacks	29.0	0.29
Brandes atta	13.5	0.90
Pasta products	8.4	0.14
Total	158.4	7.03

Source: www.mofpi.nic.in/visdoc/volume2.

The industry is characterized by the presence of large number of unorganized players, exceeding 50,000. There are only about 15 players, who market branded, packed bakery products. As far as bread is concerned, the total bread production in the country is estimated to be 3.75 million tonnes annually. As per industry estimates, in the last 5 years, the bread industry in India has been growing at about 8 per cent. The two large units that were already in existence namely, the Brittannia Industries Limited and the Modern Food Industries Limited were however allowed to continue on the basis of their existing installed capacity. The unorganized sector is estimated to have as many as 75,000 bread bakers located in residential areas in towns and cities. From being a low priced commodity, bread has gradually developed into a branded product largely because of the product positioning platforms created by two large players in the industry. Milk bread accounts for 85 per cent of the bread market with 10 per cent going to brown bread and 5 per cent for fruit and other special bread. The size of the biscuit industry is estimated to be around 1.95 million tonnes, of which the organized sector (branded/packed) is about 57 per cent by volume, and 64 per cent by value. The organized biscuit sector comprises two large scale units, about 50 medium scale and about 2,500 SSI units. The unorganized sector is estimated to have approximately 30,000 small and tiny bakeries across the country.

FRUIT AND VEGETABLE PROCESSING INDUSTRY

Though only about 2 per cent of these crops are processed, the sector has many existing large scale players and many new ones entering the sector with large investments both in value added fresh and processed products. India produces 2.5 to 3 million tonnes of spices annually worth around US$ 3 billion. India exports around 0.25 million tonnes of spices annually, accounting for a 37 per cent share in volume and 23 per cent share in value in the world spice trade. India meets around 78 per cent of the world demand for spice oils and oleroresins. India accounts for 25-30 per cent of world pepper production, 35 per cent of ginger and about 90 per cent of turmeric production. Major exports destination are the EU, Sri Lanka, Japan, and Middle East countries. Major spices in terms of area are chilli, cumin seed, mustard seed, coriander seed, pepper, cardamom, turmeric and fenugreek.

DAIRY INDUSTRY

The Indian dairy production system is dominated by small producers. There are around 100 million milch animals reared by 70 million farmers. The share of landless, small and marginal farmers is 68 per cent in milch animals and 62 per cent in milk output. There are 1,00,000 village dairy cooperatives with a farmer membership of the order of 11 million. These primary cooperatives are federated into 170 district cooperative milk unions and further into state cooperative dairy federations. The dairy cooperative network collects about 17 million liters milk per day and pays an aggregate amount of about Rs.700 billion to the milk producers in a year. The cooperative and public sector focuses on meeting the liquid milk demand in cities and towns. On the other hand, the private sector concentrates on manufacturing of milk powders, dairy whiteners, infant foods, ghee and to some extent the traditional Indian dairy products. Only a few of them market liquid milk. In 2000-01, there were 683 plants in the organized sector with an employment of 85,000 persons. About 37 per cent of India milk production of 86 million tonnes is processed, 15 per cent in the organized sector and 22 per cent in the unorganized sector. A major share of the milk processed in the organized sector is in the form of packaged liquid milk. Other processed items include ethnic sweets, milk powder, ghee, butter, cheese and ice cream. In the unorganized sector, a major share is processed into milk-based sweets, and a smaller share for making yogurt, butter and ghee. The Indian dairy industry can be divided into two types of enterprises are liquid milk and milk products. There are a few organizations which are into both liquid milk as well as milk products. These two categories differ in terms of their ownership, size of business and profitability. Whereas the liquid milk business is dominated by cooperative or private Indian firms, the milk product business is largely in the hands of multinational corporations. The presence of private dairies in liquid milk is confined only to certain cities and regions. It has a retail network of 700,000 outlets in India covering 3300 towns serviced by over 4000 distributors.

PAPER INDUSTRY

Indian paper industry has annual production capacity of 5 million tonnes. It generates annual turnover of approximately 120 billion. It directly and indirectly employs nearly 1.3 million people. There are now 515 units engaged in the manufacture of paper and paperboards and newsprint in India. The country is almost self-sufficient in manufacture of most varieties of paper and paperboards. Import, however, is confined only to certain specialty papers. To meet part of its raw material needs, the industry has to rely on imported wood pulp and waste paper. Production of paper and paperboard during the year 2008- 2009 was 26.52 lakh tonnes. At present about 60.8 per cent of the total production is based on non-wood raw material and 41.2 per cent on wood. Wood as raw material accounts for 41 per cent of the paper production and about 30 per cent each being shared by agro waste and waste paper.

After independence the agro based industries growth was slow, due to low investment level. Now the agro-based industries are progress well, because the demand for processed food is growing due to population and also income levels of progress. With the backgrounds the Indian agro-based industry is stepping into 21st century.

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